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Housing Downturn May Hit California Hardest, Experts Warn

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On the same day a real estate trade group reported the housing market is on the verge of stabilizing, experts on California's economy say the state could see a more dramatic and prolonged downturn than other parts of the country, in part because more recent buyers relied heavily on risky loans here.

Esmael Adibi, director of the Anderson Center for Economic Research at Chapman University in Orange, is forecasting a 9 percent decline in average home prices on the statewide level in 2008. And he said an additional 15 to 20 percent drop in 2009 would not be out of the question.

"We disproportionately enjoyed much higher home price appreciation over the last several years with the uses of subprime and Alt-A loans," Adibi said. "This is going to come to haunt us."

In the last steep housing downturn, Adibi said, it took 54 months for San Francisco home prices to fall from peak to trough; in San Jose it was 60 months, and in Oakland it was 51 months. To get back to the previous peak price levels took another 3 years, roughly.

"I don't see anything that would suggest the current downtrend is going to level off soon," said Michael Carney, executive director of the Real Estate Research Council of Northern California. "In fact, I think we might be seeing a gathering of momentum in the downward direction. I think we're more toward the beginning of a process than toward the end of it."

Certainly, the statistics compiled by San Jose real estate firm owner Richard Calhoun seem to show a buyers' market still tumbling farther. The median asking price for a single-family house in San Mateo County, for instance, has fallen from \$948,000 in November 2005 to \$767,000 this November.

The average number of days on market, meanwhile, has jumped from 59 to 100 in the same period. Most distressing to Calhoun, who studies home prices and sales each month gleaned from MLS records, is the number of sales - only 517 in November in Santa Clara County - the lowest number for any month since 1998.

Pinpointing exactly when the housing market in Silicon Valley, the entire Bay Area, California, or even the nation, will settle down and start to improve is a tricky prospect, given how intertwined housing is with so many other parts of the economy.

"There's no one answer as to when the bottom of the market is reached and what stability is," said Christopher Thornberg, an economist with Beacon Economics. "Are we talking price stability, construction stability, sales stability, foreclosures stability? It's a question of what you're looking for."

"These corrections are so long and there are so many different parts to the cycle. The classic case was going into the collapse. Sales started falling in late 2005, prices started falling in the third quarter of 2006, foreclosures are spiking up now, and it will impact consumer spending next year."

In Washington, the revised monthly forecast from the National Association of Realtors, which followed nine straight months of downward revisions, calls for U.S. existing home sales to fall 12.5 percent this year to 5.67 million - the lowest level since 2002. Last month, the association predicted 5.66 million existing homes would be sold this year, down from 6.48 million last year.

The Realtors' group also forecast that sales will rise slightly in 2008 to 5.70 million, up from last month's prediction of 5.69 million.

Patrick Newport, an economist at Global Insight, forecasts that home sales will drop from 5.66 million this year to 4.7 million in 2008 - 1 million fewer home sales than the real estate group's forecast.

"With the economy and job growth slowing ... it is hard to believe that we have hit bottom," Newport said in a note to clients Monday. "Our view is that prices need to drop further, and that housing activity will hit bottom about the middle of 2008."

Joel Naroff, chief economist for Commerce Bank, said the United States is 12 to 18 months away from a "normal housing market" in which sales are growing and prices are rising or stable. Furthermore, he said the trade group's 0.2 percent revision to its sales forecast should be taken with a grain of salt, given the difficulty of projecting with any certainty.

Nevertheless, the Realtor group's chief economist, Lawrence Yun, gave a positive outlook for job growth and the replacement of subprime lenders to borrowers with weak credit with government-backed loans as reasons for the improved outlook.

"Despite over-exaggerated negative coverage on the housing conditions, many local markets are actually seeing price increases," Yun said at a press briefing. "Mortgage availability is improving."

Yun acknowledged that housing prices soared relative to buyers' availability to afford homes in places like Miami and San Diego, but he said housing "remains affordable in vast parts of the country" - particularly in the Midwest.

The trade group also said its index that forecasts near-term home sales inched upward in October. The trade group's seasonally adjusted index of pending sales for existing homes rose 0.6 percent to 87.2 from an upwardly revised September index of 86.7, but was down 18.4 percent from a year ago - the third-largest year-over year decline on record.

The Realtors also forecast the median price for U.S. existing homes - the point at which half sell for more and half for less - will sink by 1.9 percent to \$217,600 this year and rise 0.3 percent next year to \$218,300.

If median prices fall this year, it will be the first price decline in the nearly 40 years that the trade group has tracked that data.

Other ways to measure national housing prices, such as the S&P/Case-Shiller index, have already shown price declines.

In addition, a government index of national home prices marked a quarterly decline for the first time in 13 years in the third quarter.

Home prices dipped 0.4 percent nationwide in the July-September period, compared with the previous quarter, the Office of Federal Housing Enterprise Oversight said last month, citing weakening prices in much of the country.

Compared with the third quarter of 2006, U.S home prices posted an increase of 1.8 percent, but it was the smallest year-over-year increase since 1995, according to the agency, which oversees the big mortgage-finance companies Fannie Mae and Freddie Mac.

The Associated Press contributed to this report.